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BULLETIN OF THE

TAYLOR SOCIETY

AN INTERNATIONAL SOCIETY TO PROMOTE THE SCIENCE
AND THE ART OF ADMINISTRATION AND OF MANAGEMENT

The Impetus to Market Research

By Jean F. Carroll

A Paper presented at a Meeting of the Taylor Society in a session arranged by the American Marketing Society.

FEB 14 1934

Engineering Societies Building
29 W. Thirty-Ninth St.
New York

DECEMBER, 1933 VOL. XVIII, NO. 6

Objects of the Taylor Society Incorporated

The objects of this Society are, through research, discussion, publication and other appropriate means:

1. To secure—for the common benefit of the community, the worker, the manager and the employer—understanding and intelligent direction of the principles of administration and management which govern organized effort for accomplishing industrial and other social purposes.

2. To secure the gradual elimination of unnecessary effort and of unduly burdensome toil in the accomplishment of the work of the world.

3. To promote the scientific study and teaching of the principles governing organized effort, and of the mechanisms of their adaptations and application under varying and changing conditions.

4. To promote general recognition of the fact that the evaluation and application of these principles and mechanisms are the mutual concern of the community, the worker, the manager and the employer.

5. To inspire in labor, manager and employer a constant adherence to the highest ethical conception of their individual and collective responsibility.

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Philippine Management Society

We are very happy to have received a request from the Philippine Management Society to affiliate itself with us as a branch of the Taylor Society. This indication of the interest in Scientific Management in the Philippine Islands should be received with keen interest by our members.

As our contribution to the development of a management library, we have forwarded to them a copy of "Scientific Management in American Industry," and Copley's "Frederick W. Taylor, Father of Scientific Management" and an incomplete set of the back issues of the Bulletin. These are all that we can spare at the present time but we hope our members who have extra copies of the Bulletin and other books on management which they are willing to donate will forward them to Mr. Pedro R. Romero, President, Philippine Management Society, School of Business Administration, University of the Philippines, Manila, P. I.

It gives us pleasure to welcome the Philippine Management Society and we hope that this marks the beginning of a long period of co-operation.

Comment

IN THREE periods of American history there has been an outpouring of pamphlets, special articles, public addresses, editorials, letters to editors and similar utterances which mark the making of a new social philosophy and of new institutions expressing it. One of these periods was that of the Revolution and the construction of the Constitution; another preceded the Civil War; we are now in the third. Each of these periods has been characterized by a break in the trend of secular affairs.

AMONG the statesmen of today who see clearly and think clearly is the Hon. Henry A. Wallace, Secretary of Agriculture. We are reminded of this fact by two recent addresses; one in Philadelphia on December 28, the other in Boston on December 29. The American Engineering Council is to be congratulated for having made them available to its members in mimeographed form. We give our readers some excerpts from one of them—"The Social Advantages and Disadvantages of the Engineering-Scientific Approach to Civilization."

"THE ENGINEERS and the Scientists have given us the instruments and the methods whereby we can escape much of the grind (of livelihood) . . . . The men who invented our labor-saving machinery . . . would have been bitterly disappointed had they seen how our social order was to make a mockery of their handiwork. I have no doubt they feel they were directing their talents to free mankind from the fear of scarcity, from the grind of monotonous, all-absorbing toil, and from the terrors of economic insecurity. Things have not worked out that way.

"I WOULD like to suggest that the very training which made possible the enormous material expanse of the past century may to some extent have made impossible the building of a just social system for the prompter and more uniform distribution of the wealth produced by the system. Most of the scientists and engineers were trained in laissez faire, classical economics, and in natural science based on the doctrine of the struggle for existence. . . . The scientists and inventors have an intense kind of religion of their own—certain standards to which they like to be true—and as long as they could get enough money to pursue their researches, why should they care how someone else handled the social and economic power derived from these researches?

"THERE ought to be more than a little hope, it seems to me, in the fact that our engineers have demonstrated so successfully their skill in planning. In many great industries, the engineers have been able to mark out the contours of expansion and development ten to fifteen years ahead. If in the past they seemed to be guided by purely material and mechanical considerations, that has doubtless been because such considerations were necessarily the chief ones so long as we were conquering a continent . . . we must take into account the qualitative as well as the quantitative expansive aspects. . . . It is difficut to see how the engineer and the scientist can much longer preserve a complete isolation from the economic and social world about him. . . . Science and engineering will destroy themselves and the civilization of which they are a part unless there is built up a consciousness which is as real and definite in meeting social problems as the engineer displays when he builds his bridge. Would that we had someone with the imagination of Sir Isaac Newton to develop the higher calculus of the engineering of life which is so necessary if our increased productive power is to increase total human happiness!"

The Impetus to Market Research

Paper Presented to a Meeting of the Taylor Society, New York, December 8, 1933

By **JEAN F. CARROLL**

President, General Marketing Counselors, Inc., New York

BEFORE WE can discuss the impetus to market research which comes from the National Recovery Act and the Agricultural Adjustment Act, it is necessary to examine the fundamental purposes of the New Deal. Perhaps it is presumptuous to attempt to set up the principles upon which the New Deal is based, but it is essential that we start from such definitions in order to see where we are going.

There are three principles of the New Deal which definitely affect market research. These principles are: First, that production must be balanced with consumption; second, that each industry must maintain its own employes; third, that business must be conducted by fair and efficient methods. In few codes are all three of these principles fully embodied, but each principle appears in a sufficient number of codes to justify us in giving attention to each.

Balancing Production with Consumption

For a long time, many academic discussions have been held on the subject of balancing production and consumption, but under the methods used by business in this country, little effort has been made to apply the principle. Probably the most outstanding examples of how this principle fits in with the New Deal program are to be found under the Agricultural Adjustment Act. Basically, the reduction of crop acreage is nothing but an attempt to balance production with consumption. In a few of the codes, we find provisions which limit the productive capacity of the industry to the present amount. In *one* code, there is even a provision that no further machinery may be introduced except by permission from the Code Authority.

A recent proposal made by the Oil Industry is worthy of note here because it introduces a new element of production control. We are familiar with the agricultural production control methods used during the Hoover administration, namely, that of the buying of surplus agricultural products by the Government. Under this plan, there was no real incentive for farmers to cut down on their production because the Government was expected to continue buying the surplus. The new Oil Industry provision puts production control where it belongs by requiring that the producing companies themselves shall set aside a fund with which to purchase surplus production and hold it until a more favorable time to ease it into the market. The merit of this method lies in the fact that we can depend on the producing companies to really limit production before they are forced to finance any considerable over-production in the industry.

Few people have given thought to the provisions in the codes which give the President the right to modify the codes, and the provisions in the Act which give him the right to license companies within an industry for enforcement purposes. If this idea of balancing production with consumption for each industry is carried very far, we will rapidly find our company executives thinking in terms of the absorption power of the market and not merely in terms of the productive capacity of their own plants.

Before it is possible to co-ordinate production with consumption, it is absolutely necessary that we know more about consumption than we do at the present time. From experience with a number of associations in connection with their code work, I can make the statement that most business men do not have an adequate concept of the volume of business which takes place in their particular industry, very little comprehension of the productive capacity, and even less of the total consumption or of the potential market of their industry. Trade association officials now have before them a wonderful opportunity to make honest-to-goodness contributions to their industry by showing their members the need for going into this subject of consumption and production on such a scale as to produce information that will aid each and every company. What is needed is a complete picture of the industry from both standpoints so that individual firms may know where they stand in relation to their industry, and so that as a group they may act more intelligently to control those forces which will make for the success or failure of the movement toward a program of planned production.

This can be done by having the Code Authority require each company to submit monthly data regarding sales, production, stock on hand, shipments, and possibly unfilled orders. If this information is then compiled in an adequate manner, each company will be in a position to plan its production more intelligently in relation to the market.

Some associations have taken the attitude that they will secure only the minimum data from companies for the required code reports. I am willing to venture the prediction that the executives in trade associations who are today taking this attitude will wonder in a year or two why they have been displaced. Part of the reason will be that they are adopting a short-sighted policy and not taking as much advantage of the benefits to be secured from NRA as are other associations.

Maintaining Employment

The second major principle of the New Deal to be discussed here is that each industry must maintain its own employment. Obviously, this is a very generalized statement because in industries requiring a large amount of unskilled labor, it is quite difficult to determine how much of the unemployment should be absorbed by any one industry. Where the industry uses quite highly skilled labor, it is much easier to determine the amount of unemployment which can be attributed to the conditions in the given industry. The first thing which we must know then is, "What is the normal employment?" The next thing we must know is, "What is the amount of available labor?" With these two sets of facts, administration is in position to help determine what hours should be worked in order to reduce unemployment to the minimum.

Obviously, it is possible to carry a good thing too far. Hence, the Government has taken cognizance of the industry's ability to employ and also the industry's ability to pay. It would do no good to so load an industry with workers on high wages that the industry would become extinct through inability to continue to operate. The Government requires proof that industries are complying with the codes and most of the Code Authorities are directly or through the use of Confidential Statistical Agencies securing data from each company regarding hours and wages. At the same time that this required material is being collected, it is just as easy to ask for the further information previously mentioned. Thus, data regarding production and consumption can be secured with little extra effort.

Some of the smaller industries have been granted codes with apparently little hesitancy on the part of the NRA. Some of these industries think they have "got by," but they will find that as there is time for the Government to review the codes which have been approved it will cause such industries to submit complete information to support the contentions that the codes as framed and passed were justified. Such industries should now be making the necessary studies of their situations in order to be in a position to meet the challenge.

Fair and Efficient Business Methods

The third basic principle is that each business must be run in a fair and efficient manner. A number of the codes have provisions which state that goods shall not be sold below cost. It is necessary in many cases for the Code Authorities, with the sanction of the NRA, to establish what is meant by "selling below cost." The correct definition of "costs" should be determined immediately, therefore. This is going to prove difficult until distribution cost accounting is developed to the point that production cost accounting has reached. For, shall we not include selling and advertising costs as well as production and interest costs?

Many people think that the codes will make it possible for all firms to be prosperous regardless of their inefficiencies. All an NRA code can possibly do is to change the form by which an inefficient company goes out of business. Previously, an inefficient, high-cost firm was permitted to go out of business by dissipating its own capital, and by cutting prices, thus wrecking the market for competitors. Now, a firm will go out of business because of its inability to make sales, since it cannot dissipate its capital by cutting prices and by wrecking the market for others. We will still have a large number of business failures.

Practically all codes contain fair trade practice provisions. These have been included to protect other firms in the industry and to make it possible for those who want to play the game fairly to have at least an even chance to survive. There is much work to be done by associations and code authorities in determining proper definitions of cost and in finding out what trade practices are fair and which are unfair. Only an adequate research program will determine the real facts upon which such definitions and the following action can be based.

All three of these basic principles of the New Deal present to trade association executives a chance to step into real leadership in their industries by initiating aggressive research programs which will help the individual companies to know more about themselves and about their relative places in their own industry and the relationship of their industry to others.

Individual Company Research

Research by individual companies is just as important as the work of associations. If a company is no longer allowed to sell below cost, it has its choice of three things. It can reduce the quality of the product by putting in cheaper materials and by doing a poorer manufacturing job. Such a procedure will permit the product to appeal to a lower class of trade, and for a time, may even fool the better class of trade. In the long run, reduction in quality is a questionable procedure since it almost certainly means eventual loss of that desirable portion of the market unwilling entirely to sacrifice quality for price.

In the second place, a firm can improve the quality of its product. Such a step frequently makes it possible for a firm to charge a price more than sufficiently high to cover the added cost of production. This policy will no doubt be adopted and followed by a number of firms, but its applicability is so obviously limited as to require little discussion. The probabilities are that most firms will again enter upon a race to reduce cost of production by using more efficient methods. That is where the work of the Taylor Society will be extremely valuable.

If a firm must sell at an established price, or at least within a price range, and if it cannot use unfair methods of getting business—such as offering larger discounts, rebates, or the giving of premiums—it will be forced to do one or both of two things: It may increase the efficiency of its sales methods or it may increase the efficiency of its advertising.

In the recent Tobacco Agreement hearing, the statement was made by Mr. Ezekiel that most of the advertising by cigarette companies was unnecessary and inefficient. In connection with the Tugwell Bill, Mr. Tugwell has stated that 90 per cent of all advertising is inefficient. Such exaggerated statements against advertising are just as groundless as are the exaggerated statements made by certain advertisers and advertising agencies that all advertising is profitable. We must recognize that there is good, bad, and mediocre advertising. I believe there will be a race to improve the quality of advertising and that it will take the research form of answering these questions:

What is the best advertising appeal to use in selling my product?

What media will most effectively carry my sales message?

How much money should I spend in advertising?

What is the best way of co-ordinating advertising with the rest of my sales efforts?

How can I tell which advertisement will be most effective?

These and other questions are and will continue to be in the minds of the advertising world. Some advertisers and some advertising agencies are making laudable attempts really to answer these questions, but it is still too true that much advertising is done purely because somebody thinks it should be done. Wherever such questions are asked, and real answers sought, we will find the development of market research—the object of which is, of course, to answer the questions arising from the attempt efficiently to market goods.

Better sales methods are going to be used, and they will be brought about by applying to selling some of the same type of thinking which members of the Taylor Society have been applying to production. Such questions as the following definitely need to be answered for each company, and the answers should be applied, not merely filed:

What is the natural territory for my company to try to serve?

What sales volume should I expect from each part of my territory?

What type of retail outlets should I use?

Which of my salesmen are efficient and which are inefficient?

Is my product meeting the requirements of the consumer?

Which products should be changed or dropped from the line?

What new products could profitably be added?

Such questions as these are going to be forced on the attention of the manufacturer because, as competition cannot take the form of price cutting or the use of unfair trade practices, it must take the form of more efficient selling. The answers to these questions must be found by various types of market research.

Scientific Approach to Marketing

I think the day is coming when we will apply to distribution some of the scientific principles which have been applied to production. No reputable firm would consider spending $50,000 for a machine which had not been thoroughly tested, yet many otherwise reputable firms are willing to gamble $50,000 in putting a new product onto the market when the only information they have as to its salability, its logical market, or its adequacy for meeting consumer demand is the idea of some president or sales manager that such a product will sell. It is possible to pre-test products and to tell what consumers are going to like or dislike about a new product and to forecast with reasonable accuracy the probable success of the product, but as yet few companies take advantage of this possibility and continue scientifically to plan the production of a product, the distribution of which remains a gamble.

Just as the New Deal has brought real research problems to the attention of trade associations, so it has also added impetus to the market research work to be done by individual companies. There is little question but that the form of NRA and AAA and the New Deal as a whole will be considerably modified as time goes on, and might even be completely altered by a change in political parties. Nothing, however, can completely eradicate the influences which President Roosevelt's New Deal has had on the thinking of the business community. Many of its effects are permanent. There has been a tremendous impetus to market research coming from NRA and AAA because they are forcing business thinking toward the consideration of the fundamental problems of productive and distributive balance, which cannot be met adequately with the present limited knowledge. Directly through the demand for data and reports, and indirectly through the implications of code provisions regarding business practices, the New Deal will continue to force recognition of the necessity for a greater knowledge of marketing.

The meeting at which this paper was presented was arranged by the American Marketing Society.

Reviews

PROFITS OR PROSPERITY? By Henry Pratt Fairchild, Harper & Brothers, New York, 1932, pages vii, 204. ($2.75)

One may wonder why a book should pose such a question as "profits or prosperity?" at the present time. Nevertheless, many readers can probably follow Dr. Fairchild's presentation more objectively under present circumstances than they could if the choice were more imminent.

The central thesis of the book, while not new, is ably presented and directs attention to the problems that more and more thinkers are coming to recognize as the crux of our present economic difficulties.

1. We permit our economic society to be governed by an uncontrolled profit incentive. Profits are the recognized reward for business ownership. Business ownership rents land, borrows capital, hires labor and management, and holds title to the goods produced by these combined factors. It does not of itself contribute anything to production, yet it owns the goods produced, and reaps the profits derived from the operation of our economic system.

2. Profits are dependent upon the goods produced being sold at a price in excess of the costs expended as rent, interest, wages and salaries. Prospective profits cannot be realized, however, unless the business owners consume the goods themselves or exchange them with other business owners, because the purchasing power of other classes is limited by the income distributed as costs of production.

3. Credit is generally used, therefore, to enable consumers to buy goods at a profit-yielding price. This only temporarily solves the problem, however, for when the credit-debt is settled, it has to be paid out of purchasing power. The only way that profits can be continuously realized is for business ownership to take its profits in goods or continually expand credit and pile up higher and higher debts.

4. But that is not all. Income is distributed so unevenly that even the interest and rent receivers cannot spend all their income for consumption goods. They have to invest it in plants, machinery and other forms of production facilities.

5. As long as credit is being expanded and incomes in excess of consumption needs are invested, we have the outward appearance of prosperity, although the masses of our people are barely subsisting. There comes a time, however, when the size of our debt accumulations and credit expansion begins to suggest caution to the bankers and money lenders. Furthermore, machines do not buy goods and we find that our rapid expansion in productive equiment has resulted in a larger volume of consumption goods being put on the market than can be purchased. The apparent increase in national income has been going largely into savings and capital investment and not into consumers' purchasing power. Prospects for profits suddenly vanish. The bankers begin to call in their loans and restrict credit and it is suddenly realized that the huge debt accumulations cannot be paid. What follows should be clear to all of us at the present time.

Dr. Fairchild offers several proposals that we should endeavor to follow in the future if we hope to start on the road toward a more real and lasting prosperity. Space does not permit elaboration, but they include: a more even distribution of income, control or limitation of the profit incentive, control of investment, greater emphasis of consumption and less of production, diffusion of ownership, shorter hours and education for leisure, and recognition of social welfare as being superior to personal expediency.—*By* EMMETT H. WELCH, Industrial Research Department, University of Pennsylvania, Philadelphia.

VOCATIONAL GUIDANCE IN ENGINEERING LINES. Elicited and Edited by the American Association of Engineers, The Mack Printing Company, Easton, Pa., 1933, pages xxxiv, 521. ($2.50)

This volume, altruistically conceived and undertaken, is excellently executed and deserves a place in the library of every American engineering school. Its objects are to encourage the right people to enter the Engineering Profession and to try to prevent a great number of young men from making failures of their lives, and from developing in their minds an inferiority complex because they failed in a technical school.

Some fifty-odd branches of engineering including industrial engineering are covered, the authors being, for the most part, authorities in their respective fields. Although this diversity of authorship might seem to be a handicap at the first glance, we find that each covers the same ground within his subject to some degree—the personal qualifications necessary, the knowledge and schooling required, the rewards and satisfactions to be gained and the hardships and disappointments (although these are sometimes minimized) to be endured, if success is to be achieved by anyone desiring to enter the profession. A history of the particular branch of engineering is usually included with a discussion of the present stage in its development and the opportunities it offers.

The chapter, "Ascertaining of Mental Capacity and Special Talents," by Dr. Harry D. Kitson is addressed to the young man who is entering engineering and is designed to help him help himself in choosing his vocation.

NECROLOGY

Mortimer Sanford Dowd

September 14, 1868 **July 30, 1933**

Hartford, Connecticut

A charter member of the Taylor Society; one of the most competent masters of the true Taylor technique; a gentleman of unimpeachable character and integrity.

Philetus W. Gates

June 23, 1857 **November 7, 1933**

Chicago, Illinois

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(There is in the present situation) "a challenge to the followers of Taylor which they cannot ignore. The anarchy of competition obstructed their efforts and prevented the benefits which they tried to bestow from being enjoyed in full measure and for long at a time by the population in general. Now there appears to be some hope in the acceptance of the principle that industrial government must take the place of competition. But if that government is in the hands of profit-seekers who will, whatever their pretenses, attempt to balance production and consumption by reducing production instead of by enlarging consumption, there is no more place for management engineers in our economic order. Their skills and their aims will be at a discount. The crisis which Veblen predicted in his "Engineers and the Price System" appears to be sharpening. It is no longer sufficient for engineers to understand their own trades. They must know also how and why the price system prevents them from creating plenty to abolish poverty. They must insist that industrial government, in its avowed purposes and in all its acts, seek the goal of plenty, and they must not rest content until power is in the hands of those who will honestly and effectively do so."

George Soule in *The New Republic*, January 31. 1934.